

# Cleveland On Cotton: A Tipping Point In India?

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The pandemic played out in the market at week's end, but not before the new crop December futures contract moved above 59 cents – the very top of its range – before ending the week at 57.46 cents.

The Chinese futures cotton charts offer no new trading opportunities as they did three weeks ago when market action set off this recent rally in New York prices. Chinese buying sent prices higher, but now the market must wait for a number of potentially bullish/bearish events to unfold during the northern hemisphere planting season.

In the meantime, the 54.50 to 59.50 cent trading range should hold forth.

**Banking On Pent-Up Demand**

The bulls are counting on Chinese buying to bolster the demand side of the market. Additionally, they are expecting planting reductions around the globe: India, China, the U.S., Brazil and Central Asia.

With very low profit margins, farmers will scale back on inputs, so the world cotton yield will likely run lower. Pent-up demand for cotton goods should bring support to the market, but demand likely won't surface until the first quarter of 2021. The March, May and July 2021 futures contracts will benefit from that demand.

The bears are just as rambunctious, suggesting that significant sanctions on China for allegedly spreading the coronavirus, will affect the cotton market. They reason that China will renege on U.S. cotton purchases and potentially cancel sales that are already on the books.

In the month before buying U.S. cotton, China bought a like amount of Brazilian cotton — and can buy more.

The more important bearish fundamental is the ongoing buildup of stocks in India, the world's largest cotton producer. India will see a production decline in 2020 and likely 2021, too.

Indian stocks are pushing to record levels and textile mills were totally shuttered due to the coronavirus. Mills that have already begun to operate in Asia and the subcontinent are now beginning to complain about a buildup in yarn stocks and low yarn prices.

## **How The Totals Actually Look**

As noted, the weekly export sales report shows exceptionally strong sales to China, a total of 441,700 bales of Upland.

Net weekly sales of Upland totaled 434,800 bales, including 34,900 bales in cancellations, mostly to China and Turkey. Sales for 2020-21 were a healthy 148,500 bales.

Pima sales totaled only 400 bales. Shipments totaled 253,700 bales of Upland and 7,000 bales of Pima.

USDA's May world supply/demand report will come out on May 12. I expect small reductions in production. However, the market is now devoting its attention to planting progress.

U.S. growers, facing low futures prices, can still expect 66-68 cents per pound or more via a cash sale in conjunction with an LDP/POP and with the addition of the seed program payment.

Of course, high grade 21's will enhance that. The 59-cent level, basis December, is likely the spring to midsummer futures high. However, the extension of the old crop CCC loan will allow old crop cash prices to drift higher.

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